

VZCZCXYZ0004
PP RUEHWEB

DE RUEHYN #0541/01 0860815
ZNY CCCCC ZZH
P 260815Z MAR 08
FM AMEMBASSY SANAA
TO RUEHC/SECSTATE WASHDC PRIORITY 9270
INFO RUCPDO/USDOC WASHDC PRIORITY

C O N F I D E N T I A L SANAA 000541

SIPDIS

SIPDIS

STATE FOR NEA/ARP (FRANCESCHI AND BAGWELL)
STATE FOR EEB

E.O. 12958: DECL: 03/26/2018
TAGS: [EAID](#) [ECON](#) [EFIN](#) [PREL](#) [YM](#)
SUBJECT: IF THE YEMENI GOVERNMENT IS RUNNING OUT OF MONEY,
WHY IS IT RAISING SALARIES?

REF: A. 2007 SANAA 01343
[1](#)B. 2007 SANAA 02193

Classified By: Ambassador Stephen A. Seche, per reasons 1.4 (b) and (d)

[1](#)1. (C) SUMMARY: The ROYG apparently does not have enough revenues to cover its expenses. Against this background, it has promised to increase salaries, pensions and social welfare payments by USD 372 million. Raising General Sales Tax revenues, reducing smuggling/tax evasion, eliminating "ghost workers" and liquidating Yemen's foreign reserves may offer some hope, but Yemen's decision to raise salaries is ultimately likely to worsen the economic situation and drive the country deeper into crisis. END SUMMARY

YEMENI GOVERNMENT IS OUT OF MONEY

[1](#)2. (C) In a March 24 meeting with Econoff, Tax Authority Chair Ahmed Ghaleb admitted that current government expenditures are greater than current government revenues, and that the ROYG may not have enough funds to cover salaries. He stated that total expenditures for 2007 were 525 billion Yemeni Riyals (YR), whereas total revenues were only YR 450 billion. He gave Econoff a breakdown of 2007 expenditures:

- Wages and Salaries: YR 425 billion
- Subsidies: YR 600 billion
- Interest Payments: YR 150-200 billion
- Social Welfare Payments: YR 150 billion

[1](#)3. (C) Ghaleb's statement confirmed fears Post has heard previously. On March 3, the Saudi Ambassador told POL/E Chief that he was seriously concerned with the financial situation of the ROYG. He said that he had recently spoken to Minister of Finance Numan al-Suhaibi, who told him that, in the coming months, the ROYG will reach a point where it no longer has sufficient funds to pay salaries. In addition to worrying about how the ROYG would meet its payroll, he expressed concern that the ROYG will not be able to pay the USD 3.5 billion it needs to subsidize fuel prices. He predicted the price of fuel will double or triple and noted that the last time fuel prices increased in July 2005, it led to rioting in the streets (Note: Although Yemen is an exporter of oil, its very limited refining capacity leaves it dependent on imported fuel. End note.)

SEVERAL FACTORS BEHIND LACK OF REVENUES

[1](#)4. (U) There are various factors behind the shortfall in revenues. In 2007, crude oil production dropped by 12.2 percent. Additionally, higher oil prices have translated

into the higher costs for the oil subsidies which the ROYG provides the general population. In a February 23 speech to Parliament, Prime Minister Ali Mujawar reported that between 2006 and 2007, the oil subsidy's share of the general budget increased from 21.2 percent to 30 percent. He opined that the ROYG may not be able to economically sustain the oil subsidy and may have to cut it. (Note: Post has received mixed signals about the potential oil-subsidy cut. The Ministry of Oil and Mineral Resources denied that the subsidy will be cut, whereas the World Bank anticipates that the ROYG will implement a partial reduction of the oil subsidy later in 2008. End note.) A third factor behind the budget shortfall is the high inflation rate, which was around 14 percent in 2007. During 2007, however, the prices of many basic commodities, including bread, doubled (reftel A and B). Inflation is aggravated by the declining value of the Yemeni riyal, which is pegged to the USD. Widespread smuggling and tax evasion have also contributed to low revenues.

NEVERTHELESS, THE ROYG OFFERS HIGHER WAGES

¶5. (U) Despite the shortfall in revenues, the ROYG announced a new round of increases in wages, pensions and social welfare benefits in March 2008. Senior World Bank Economist Ali Abdulrazzaq told Econoff on March 25 that the new measure, intended to mitigate the effect of rising inflation, has three prongs: The first is increased wages for all civil service and military personnel (an estimated 1.2 million persons) by YR 3,000 (USD 15) per month, thus adding some YR 44 billion to the annual wage bill. The second is increased monthly pensions for all retirees by YR 1,500, with an annual cost of YR 4.8 billion (USD 24 million). The third is doubling the poverty allocations under the Social Welfare Fund (SWF), with an additional cost of YR 25 billion.

Abdulrazzaq estimated the total annual cost of the new package is about 74 billion Yemeni riyals. He concluded that for 2008 alone, these provisions will cost about YR 62 billion, thus contributing to widening the budget deficit from 6.8 to 7.3 percent of the GDP.

MITIGATING FACTORS TO THE DECREASE IN REVENUES

¶6. (C) Ghaleb hopes that, to fill the gap between revenues and expenditures, the ROYG will implement a General Sales Tax in 2008, which would raise an additional YR 1 trillion. He also said that the ROYG will crack down on smuggling and tax evasion, which would raise additional revenues. In 2007, the Ministry of Civil Service embarked on a Civil Service Modernization Project, which will eliminate thousands of "ghost workers" or "double dippers" (i.e. where one person holds multiple jobs on paper and receives multiple salaries) through the issuance of biometric identity cards and the creation of a civil service identification system. In addition, Abdulrazzaq believes that the ROYG has USD 5-6 billion in foreign reserves which it can use to compensate for the decrease in revenue. As a result, he expects the ROYG to fulfill its promise of March 2008 salary increases, at least in the short term.

COMMENT

¶7. (C) Already facing unrest in the North and South, inflation and terrorism, the Saleh regime can ill-afford a budget crisis. Trying to fight inflation with wage increases shows a profound failure to understand basic economics. To paraphrase a famous speech by Libyan Leader Muammar al-Qadhafi, "Yemen is standing on the brink of an economic cliff and its plans to increase wages may constitute a giant step forward."

SECHE